

April 16, 1998

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES
SENATE ON PROPOSED TARIFF LEGISLATION¹

Bill no., sponsor, and sponsor's state: S. 1475 (105th Congress), Senator D'Amato (NY).²

Companion bill: H.R. 2622 (105th Congress), the "Trade and Technical Corrections Act of 1997."³

Title as introduced: To suspend temporarily the duty on certain twisted yarn of viscose rayon.

Summary of bill:⁴

The bill would amend the Harmonized Tariff Schedule (HTS) of the United States to suspend the general rate of duty of 10 percent ad valorem on specified viscose rayon filament yarn through December 31, 2000.⁵ The yarn is classified in HTS subheading 5403.32.00 and is described as single yarn of viscose rayon, with a twist exceeding 120 turns per meter.

Effective date: The 15th day after enactment.

¹ Industry analyst: Jackie W. Jones (205-3466); attorney: Jan Summers (205-2605).

² In addition to S. 1475, Senate bills providing for duty suspensions on rayon filament yarns include

S. 1474, "To suspend temporarily the duty on certain high tenacity single yarn of viscose rayon;" and S. 1478 and S. 1479, both of which are entitled, "To suspend temporarily the duty on certain other single viscose rayon yarn." All three bills were introduced by Senator D'Amato (NY) on Nov. 8, 1997.

³ Representative King (NY) originally introduced this bill as H.R. 1888, "To suspend temporarily the duty on certain twisted yarn of viscose rayon." H.R. 2622--Section 221--which would provide a 2-year duty suspension on high tenacity single rayon filament yarn (HTS subheading 5403.10.30) used in the production of industrial hoses and belting. This duty suspension was originally proposed by Representative Jenkins (TN) as H.R. 1954, "To suspend temporarily the duty on certain high tenacity single yarns of viscose rayon." One other bill on rayon filament yarn--H.R. 2148, "To suspend temporarily the duty on certain other single viscose rayon yarn"--was introduced by Representative Spence (SC) and on behalf of Representative Sisisky (VA).

⁴ See appendix A for definitions of tariff and trade agreement terms.

⁵ Telephone conversation by Commission staff with the proponents of the bill indicate that a three-year duty suspension is requested.

Retroactive effect: None

Statement of purpose:

The sponsor made no statement regarding the bill in the *Congressional Record*, and his staff did not supply USITC staff with any information. However, the principal proponent, ICF Industries, Inc., stated that a suspension of the 10-percent duty on the rayon filament yarns would lower the cost of the yarns to U.S. consumers who make products like woven fabrics and embroidery thread who have no domestic source for these yarns. The duty suspension would reportedly help these companies be more competitive in the U.S. market against yarn, fabric, and apparel imports and in the world market for these products.⁶

Product description and uses:

Single viscose rayon
filament yarn:

The bill covers single yarn other than high tenacity (breaking strength) yarn of viscose rayon filament, with a twist that exceeds 120 turns per meter, and is classifiable in HTS subheading 5403.32.00. Viscose rayon is an artificial fiber produced from cellulosic materials (generally wood pulp). The filament fiber is formed by extrusion of the chemical solution through tiny holes or spinnerettes. The rayon yarn may contain one (mono) or several (multi) filaments, which can be untwisted or held together with twist. The end uses for such low- to medium-tenacity yarn are determined by the amount of twist applied to the yarn. Rayon filament yarn with a twist of 120 to 440 turns per meter is used to make velvet fabric, while yarn with a twist of 400 to 500 turns per meter is used to make embroidery yarn used in embellishing apparel with emblems, logos, and embroidered designs. Highly twisted rayon filament yarn, with a twist ranging from 1700 to 2400 turns per meter, is used to make crepe yarns used to make woven crepe fabrics. The price of high twist rayon filament yarn increases with the amount of twist. For example, rayon filament yarn with 90 turns per meter sells for \$4.25 per pound; while that used to produce velvet sells for \$5.60 per pound; and the highly twisted crepe yarns sell for \$7 to \$9 per pound.⁷

This bill does not cover single yarn of viscose rayon filament, such as high tenacity yarn of viscose rayon, classifiable under HTS subheading 5403.10.30, and viscose rayon filament yarn, untwisted or with a twist not exceeding 120 turns per meter, classifiable under HTS subheading 5403.31.00. These products are covered by other pending bills.

⁶ Mr. Russell L. Smith, attorney for ICF Industries, Inc., New York, NY, telephone conversation with Commission staff, Mar. 6, 1998.

⁷ Mr. David Trachtenburg, ICF Industries, Inc., telephone conversation with Commission staff, Mar. 13, 1998.

Tariff treatment:⁸

<u>Product</u>	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
Artificial filament yarn(other than sewing thread), not put up for retail sale: Single yarn of viscose rayon, with a twist exceeding 120 turns per meter.....	5403.32.00	10%

This general rate of duty is not scheduled to be reduced further and represents a “bound” rate of duty under Schedule XX, the U.S. schedule of concessions accorded under the General Agreement on Tariffs and Trade.

Structure of domestic industry (including competing products):

Single viscose
rayon filament yarn:

This yarn has not been produced in the United States since early 1997, when the one U.S. producer of rayon filament yarn, North American Corp., Elizabethton, TN, stopped making most rayon filament yarn, including such yarn with a twist of 120 or more turns per meter in early 1997.

However, some firms import or purchase imported rayon filament yarn with twist of less than 120 turns per meter (classified under HTS subheading 5403.31.00) and apply additional twist depending upon the end-use application. The resulting yarn is of a kind covered by the bill (classified under HTS subheading 5403.32.00). Many of the companies that import the yarn consume it internally, using it in the manufacture of such products as velvet and crepe fabrics and embroidery thread, rather than selling the yarn on the open market. There are other firms, such as throwsters, which texturize or further process yarn, including applying twist, and sell the yarn to the end users.

Possible competing
product--acetate
filament yarn:

The Hoechst Corp. claims that acetate filament yarn is substitutable for the rayon filament yarn under consideration.⁹ The Hoechst Corp.’s subsidiary--Celanese Acetate, the world’s largest producer of acetate filament yarn--is one of two producers of acetate filament yarn in the United States. Celanese Acetate makes this product in two U.S. plants, employing 2,500 people. The other U.S. producer of acetate filament yarn is Eastman Chemical Co., which employs 10,000 people in the manufacture of chemicals, plastics and acetate fibers. Both the Hoechst Corp. and Eastman Chemical Co. claim that rayon filament yarn competes directly with the acetate filament yarn these companies produce domestically. The Hoechst Corp.’s submission states that the two filament fibers are interchangeable in

⁸ See appendix B for column 1-special and column 2 duty rates.

⁹ See appendix C for the Hoechst Corp.’s “Statement of Opposition to Pending Legislation to Suspend or Reduce Import Duties on Certain Rayon Filament Yarn,” Jan. 26, 1998; and also, Eastman Chemical Co.’s letter of position to the Committee on Ways and Means, Nov. 17, 1997.

producing four types of fabric used to make apparel--linings, circular and tricot knits, woven "fashion" fabrics, and satin and velvets. Hoechst cites evidence of the two fibers' interchangeability--namely, that both producers' exports to Korea declined in 1997 as low-priced rayon filament yarn exports shipped from China to Korea were purchased as substitutes.

ICF Industries, Inc., an importer of the rayon filament yarn and the main proponent of S. 1475, states that rayon and acetate filament yarns are not substitutable.¹⁰ They state that rayon and acetate are different chemically and are produced by different manufacturing processes. As a result, the two fibers have different properties, such as anti-static properties; differ in strengths; have varying reactions to moisture, heat, and dyes; and are priced and used differently. ICF's submissions state that because of these differences, the Neighborhood Cleaners Association and the Federal Trade Commission make a clear distinction between acetate and rayon fibers. In addition, ICF Industries explained that acetate filament yarn cannot be used to make sewing or embroidery threads because of its low abrasion resistance.¹¹ By comparison, rayon filament yarns have a high abrasion resistance. ICF Industries, Inc. also stated that the amount of twist applied to acetate filament yarn is never as high as that applied to rayon filament yarn and, therefore, acetate fibers would not be used to produce a crepe yarn.

Private-sector views:

Single viscose
rayon filament yarn:

The Commission contacted the North American Corp., Elizabethton, TN, which was the last domestic producer of most types of rayon filament yarn.¹² The company ceased production in early 1997. The Commission also contacted ICF Industries, Inc., New York, NY, a major importer of rayon filament yarn.¹³ These companies support the bill and their written comments are in appendix C.

The Commission contacted three U.S. companies that further process rayon filament yarn and oppose S. 1475. The Rayon Yarn Corp., Spartanburg, SC, is a subsidiary of Celulosa y Derivados de Monterrey (CYDSA), Corp., a manufacturer in Mexico of all types of rayon filament yarn for use in apparel, home furnishings, automobile

¹⁰ See appendix C for comments submitted by ICF Industries, Inc., to the House Ways and Means Committee, Jan. 26, 1998, and for letters to Mrs. J. Jones, USITC, from ICF Industries, Inc., Feb. 13 and 27, 1998, which refutes Hoechst Corp.'s arguments supporting the substitutability of the two fibers.

¹¹ Telephone conversation with Mr. David G. Trachtenberg, ICF Industries, Inc., with Commission staff, Mar. 11, 1998.

¹² Telephone conversation with Mr. Charles K. Green, President, North American Corp., with Commission staff, Feb. 11, 1998.

¹³ Meeting with Mr. David G. Trachtenberg, ICF Industries, Inc. and Mr. Russell L. Smith, Attorney representing ICF Industries, Inc., Jan. 29, 1998.

hoses, and other goods.¹⁴ The Rayon Yarn Corp. is the sales, marketing and distribution center for CYDSA in the United States. Hickory Throwing Co., Hickory, NC, processes the rayon filament yarn imported from Mexico. The companies' written comments are in appendix C.

Possible competing product--acetate filament yarn:

The Commission has been in contact with the two U.S. producers of acetate filament yarn--Celanese Acetate and Eastman Chemical Co., both of which oppose S. 1475.¹⁵ Their written comments are set out in appendix C.

U.S. consumption:

Single viscose rayon filament yarn :

	<u>1995</u>	<u>1996</u>	<u>1997</u>
	------(Million dollars)-----		
U.S. production.....	1	1	1
U.S. imports.....	3.6	2.4	3.9
U.S. exports.....	5.1	1.8	1.2
Apparent U.S. consumption.....	2	2	2

Principal import sources: Mexico, France, and Germany.

Principal export markets: El Salvador, Pakistan, and the United Kingdom.

¹Not available, as production data for rayon filament yarn with a twist exceeding 120 turns per meter are not separately reported. U.S. production of all types of rayon filament yarn, including the subject yarn, totaled \$30.7 million in 1996 and is believed to have dropped to a minimal amount in 1997 when the last U.S. producer ceased production of all rayon filament yarn.

²Not available.

Possible competing product--acetate filament yarn:

	<u>1995</u>	<u>1996</u>	<u>1997</u>
	------(Million dollars)-----		
U.S. production.....	1	1	1
U.S. imports.....	23.9 ²	32.8 ²	26.5 ²
U.S. exports.....	64.3 ³	70.0 ³	86.3 ³
Apparent U.S. consumption.....	4	4	4

¹⁴ Conversation with Mr. Stephen Lathan, President, Rayon Yarn Corp., and Mr. Michael R. Cobb, Director of Planning and Development, Hickory Throwing Co., Jan. 29, 1998.

¹⁵ Conversation with Mr. W. Anthony Shaw, Government Relations Department, Hoechst Corp., Washington, DC, Jan. 23, 1998.

Principal import sources: Canada and Italy.
 Principal export markets: Korea, Mexico, Belgium, and Italy.

¹Not available as U.S. production of acetate with a higher twist is not separately reported. U.S. production of all types of acetate filament yarn totaled \$405.6 million in 1996 and \$383.7 million in 1997.

²Includes data for acetate filament yarn with a twist of 5 turns per meter or more; and therefore, includes a larger universe of yarns than those that may be comparable with the subject rayon filament yarn with a twist which exceeds 120 turns per meter.

³Includes data for all exports of acetate filament yarn, including lower twist acetate yarns which have a twist of less than 5 turns per meter.

⁴Not available.

Effect on customs revenue:¹⁶

Future annual effect: Based on annual (1997) dutiable imports of the subject rayon filament yarn, valued at almost \$3.9 million, and accounting for imports from Mexico with the lower NAFTA rate, the suspension of the 1998 general rate of duty of 10 percent ad valorem for three years would result in an estimated annual customs revenue loss of \$323,800. The estimated revenue loss for the 3-year period of the duty suspension is \$971,400.

	(In thousands of dollars)
Annual value of dutiable U.S. imports	3,860
<u>- annual value of imports from Mexico</u>	<u>- 1,244</u>
Annual value of dutiable imports affected	2,616
Annual value of dutiable U.S. imports	2,616
<u>x column 1-general rate of duty</u>	<u>x 0.10</u>
Current annual duty collected	261.6
Annual value of imports from Mexico	1,244
<u>x NAFTA rate of duty</u>	<u>x 0.05</u>
Current annual duty collected on imports from Mexico	62.2
Current annual duty collected on imports from Mexico	62.2
<u>+ current annual duty collected on remaining imports</u>	<u>+ 261.6</u>
Total annual duty collected	323.8
Total annual duty collected	323.8
<u>x number of years of duty suspension</u>	<u>x 3.0</u>
Total revenue loss for 3-year period	971.4

Retroactive effect: None

Technical comments:

¹⁶ Actual revenue loss may be understated in the event of a significant increase in imports over the duty reduction period.

The proposed new tariff heading has been given only 4 digits. We suggest that it be designated as "9902.54.10". We further recommend that the proposed article description be simplified by deleting "Other yarn, single: Of" and by substituting "Single yarn of" therefor.

The proponents of the bill indicate that the duty reduction is intended to be in effect for three years. As drafted, S. 1475 would make the duty reduction effective as of the 15th day after the date of enactment but would terminate it, by operation of the proposed tariff provision, at the close of December 31, 2000. Thus, the duty reduction would not be in effect for three full years. In order to give three years' benefit of the duty reduction, the effective period of the new tariff provision would need to be amended so that it would expire on "9/30/01" or "12/31/01" or other specific date (but it would be preferable that the bill not be amended to provide that the reduction end on a date that is "three years after enactment," as this would cause confusion).

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **Harmonized Tariff Schedule of the United States** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the **Tariff Schedules of the United States** (TSUS) effective January 1, 1989.

Duty rates in the **general** subcolumn of HTS column 1 are most-favored-nation (MFN) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those enumerated in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in **column 2**. Specified goods from designated MFN-eligible countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1998. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free Trade Area Implementation Act** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the **Andean Trade Preference Act** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential or free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the **North American Free Trade Agreement**, as provided in general note 12 to the HTS and implemented effective January 1, 1994 by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular **products of insular possessions** (general note 3(a)(iv)), **products of the West Bank and Gaza Strip** (general note 3(a)(v)), goods covered by the **Automotive Products Trade Act** (APTA) (general note 5) and the **Agreement on Trade in Civil Aircraft** (ATCA) (general note 6), **articles imported from freely associated states** (general note 10), **pharmaceutical products** (general note 13), and **intermediate chemicals for dyes** (general note 14).

The **General Agreement on Tariffs and Trade 1994** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Pursuant to the **Agreement on Textiles and Clothing** (ATC) of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement** (MFA)). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.

Rev. 8/12/97

APPENDIX B

**SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

(Appendix not included in the electronic version of this report.)

APPENDIX C

OTHER ATTACHMENTS

(Appendix not included in the electronic version of this report.)

105TH CONGRESS
1ST SESSION

S. 1475

To suspend temporarily the duty on certain twisted yarn of viscose rayon.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 8, 1997

Mr. D'AMATO introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To suspend temporarily the duty on certain twisted yarn of viscose rayon.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TEMPORARY SUSPENSION OF DUTY.**

4 (a) IN GENERAL.—Subchapter II of chapter 99 of
5 the Harmonized Tariff Schedule of the United States is
6 amended by inserting in numerical sequence the following
7 new heading:

“	9902.	Other yarn, single: Of viscose rayon, with a twist ex- ceeding 120 turns/ m (provided for in subheading 5403.32.00)	Free	No change	No change	On or before 12/31/2000	”.
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1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) applies with respect to goods entered, or
3 withdrawn from warehouse for consumption, on or after
4 the 15th day after the date of enactment of this Act.

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